



CENTRAL BANK OF NIGERIA COMMUNIQUÉ NO. 133 OF THE MONETARY POLICY COMMITTEE MEETING HELD ON MONDAY 23rd AND TUESDAY 24th NOVEMBER 2020

The Monetary Policy Committee (MPC) met on the 23rd and 24th of November, 2020 amidst the announcement of the discovery of several high efficacy COVID-19 vaccines, resulting in stronger optimism for improvement in global output. However, persisting weakness in crude oil prices, soaring global debt and high unemployment persist. In the domestic environment, the Nigerian economy slid into recession in the third quarter of 2020, following a second consecutive quarter of contraction in output. The third quarter contraction was, however, milder than the previous quarter. The Committee appraised the developments in both the global and domestic economies, as well as the outlook for the rest of the year and the first quarter of 2021.

Ten (10) members of the Committee were in attendance at the meeting.

Global Economic Developments

Although the global economy witnessed a better-than-expected recovery in the second quarter of 2020, it, however, continued to be weighed down by the headwinds largely associated with the COVID-19 pandemic and weak crude oil prices. In the advanced economies, the persistence of weak aggregate demand, slow recovery in supply chain networks and the rebound in COVID-19 infection rates, have cast a new wave of uncertainty over their recovery in the short to medium term. In the Emerging Market and Developing Economies (EMDEs), China continues to lead the recovery, recording a stronger-than-

expected growth in the second quarter of 2020. In India, on the other hand, growth continued to be muted as a result of increasing rates of COVID-19 infections and fatality. In general, this group of economies is set to contract less, compared with the advanced economies, led by the expected strong recovery in China. Consequently, the International Monetary Fund (IMF) reviewed the forecast for global growth in 2020 to reflect a slower pace of contraction from -4.9 per cent to -4.4 per cent.

Inflation in most Advanced Economies is expected to remain subdued in the medium to long term as aggregate demand remains weak across several economies, reflecting the impact of the Pandemic on income. The US economy has, however, maintained a steady pace of job creation, even though infection rates and total fatality continue to rise in that country. The threat of a rebound of the Pandemic in several countries has resulted in second and third waves of lockdowns in these countries. This is expected to further dampen aggregate demand and slow the pace of price development. In several Emerging Market and Developing Economies (EMDES), inflation remained relatively high compared with the Advanced Economies owing to the persistence of exchange rate pressures, dwindling capital flows and weak accretion to reserves as well as other structural issues.

In the financial markets, conditions remain relatively stable, buoyed by continued monetary and fiscal stimulus. The huge level of monetary and fiscal injections has, however, increased the likelihood of a global financial crisis post-pandemic, especially when central banks commence normalization of monetary policy.

Domestic Economic Developments

Data from the National Bureau of Statistics (NBS) showed that real Gross Domestic Product (GDP) contracted by -3.62 per cent in Q3 2020, compared

with -6.10 and 2.28 per cent in the previous quarter and corresponding period of 2019, respectively, thereby pushing the economy into recession. The oil sector contracted further by -13.89 per cent in Q3 2020 from -6.63 per cent in the previous quarter, while the non-oil sector contracted by -2.51 per cent in Q3 2020, compared with -6.05 per cent in the preceding quarter. The persisting weak performance was mainly attributed to the lull in economic activities associated with the low price in the oil market as well as the lingering effects of the Coronavirus Pandemic.

The MPC observed the gradual improvement in the Manufacturing and Non-Manufacturing Purchasing Managers' Indices (PMIs) which rose to 50.2 and 47.6 index points, respectively, in November 2020, compared with 49.4 and 46.8 index points in October 2020. This development signposts an increase in economic activities, driven by growth in new orders, improved supply delivery time, rising production levels and new export orders. The employment level index component of the manufacturing and non-manufacturing PMIs also improved in November 2020 to 47.3 index points and 46.7 index points, respectively, compared with 46.0 index points and 44.2 index points in October 2020. The Committee, however, noted the likely downside risk to growth of the recent unrest in the country, warning that this may adversely impact economic recovery in the near term.

The Committee noted with concern that inflation has been on the rise for the fourteenth consecutive month, as headline inflation (year-on-year) moved up to 14.23 per cent in October 2020 from 13.71 per cent in September 2020. This was attributed to the increase in both food and core inflation, which rose to 17.38 and 11.14 per cent in October 2020 from 16.66 and 10.58 per cent in September 2020, respectively. The continued increase in food and core inflation was attributed to the persistence of insecurity across the country as well as lingering structural deficiencies impacting the logistics of moving food items to urban

areas such as poor road networks, unstable power supply and a host of other infrastructural deficiencies. Other factors include the persisting impact of coronavirus-induced supply disruptions, recent hikes in the price of energy products (PMS and electricity) and weak crude oil prices.

The Committee, however, noted that the rise in inflation will likely abate in the medium term, as domestic production is expected to recover, following the resumption of economic activities post-COVID-19 lockdown. In addition to this, food inflation is expected to moderate as harvest season sets in. Monetary and fiscal policies are also expected to continue their broad-based stimulus support towards full recovery. This will involve fiscal measures to reduce unemployment, provide an enabling environment for private sector investment and necessary support to the health sector to cushion the impact of the coronavirus pandemic. In addition, the CBN is expected to sustain its various intervention measures to boost consumer spending and support the recovery.

The Committee noted that growth in broad money supply (M3) increased marginally to 3.53 per cent in October 2020 from 3.20 per cent in September 2020, reflecting an increase in Net Foreign Assets (NFA). It further noted the moderation in contraction in Net Domestic Assets (NDA) to -2.19 per cent from -5.05 per cent in the previous period. Aggregate domestic credit, however, grew by 7.61 per cent in October 2020 compared with 7.35 per cent in the previous month, as a result of the Bank's policy on Loan-to-Deposit Ratio (LDR), supported by the Bank's interventions in the various sectors of the economy. Total gross credit by the banking industry stood at N19.54 trillion as at 13th November 2020 compared with N19.33 trillion at end-August 2020, an increase of N290.13 billion. When compared with N15.56 trillion at the commencement of the LDR policy in May 2019, total gross credit increased by N3.97 trillion. These loans were granted mainly to manufacturing (N738 billion), General Commerce (N874 billion), Agric

and Forestry (N301 billion), Construction (N291 billion), ICT (N231 billion), just to mention a few.

The Committee noted the reduction in interest rates on loans granted by Deposit Money Banks (DMBs). As at October 2020, 86.23 per cent of total loans granted to over one (1) million customers, by Deposit Money Banks (DMBs) were at interest rates considerably below 20 per cent. This was an improvement from 76.43 per cent as at July 2019.

MPC noted the improvement in Financial Soundness Indicators of the DMBs which showed Capital Adequacy Ratio (CAR) of 15.5 per cent, Non-Performing Loans (NPLs) of 5.73 per cent and Liquidity Ratio (LR) of 35.6 per cent, as at October, 2020. As regards non-performing loans (NPLs), MPC however, noted that the ratio remained above the prudential benchmark of 5.0 per cent and urged the Bank to sustain its tight prudential regime to bring it below the benchmark.

The Committee welcomed the improvement in the financial soundness indicators of Other Financial Institutions (OFIs) as indicated by the growth of N582 billion, or 16.94 per cent (year-on-year), in aggregate assets to N4.02 trillion as at end-September 2020. Similarly, aggregate credit grew by N217 billion, or 12.27 per cent (year-on-year), to N1.99 trillion during the same period. The Capital Adequacy Ratio for the subsector also exceeded the minimum prudential ratio of 10 per cent.

The Committee recognized the supportive developmental roles of the CBN towards addressing some of the structural issues in the economy. The MPC specifically expressed optimism on the future impact of the disbursements from Agri-Business/Small and Medium Enterprise Investment Scheme (AGSMEIS) (N92.90 billion to 24,702 beneficiaries), Anchor Borrowers Program (ABP) by the

sum of N164.91 billion to 954,279 beneficiaries and COVID-19 Targeted Credit Facility (TCF) to household and SMEs (N149.21 billion to 316,869 beneficiaries).

Liquidity conditions in the banking system continued to influence money market rates in the review period. The Open Buy Back (OBB) rate declined progressively as a result of rising liquidity levels in the banking system, while there were no transactions at the uncollateralized inter-bank call window. Consequently, the monthly weighted average OBB rate declined to 1.88 per cent in October 2020 from 3.50 per cent in September 2020.

The Committee noted the recent impressive performance recorded in the equities market, particularly the increased patronage by domestic investors largely driven by low yields in the money market. The All-Share Index (ASI) increased by 20.55 per cent to 30,530.69 on October 30, 2020 from 25,327.13 on September 30, 2020. Similarly, Market Capitalization, grew by 20.82 per cent to N15.96 trillion from N13.21 trillion over the same period. This improved performance was largely attributed to positive third quarter corporate earnings as investors moved in to pick-up bargain stocks.

The Committee observed the moderate decline in the external reserves position, which stood at US\$35.18 billion as at November 19, 2020 compared with US\$35.95 billion at end-September 2020, as crude oil prices continue to fluctuate with downward pressure.

Outlook

Overall, the medium-term outlook for the global economy is beginning to show a ray of optimism following the discovery of COVID-19 vaccines.

In the domestic economy, available data and forecasts for key macroeconomic variables also suggest optimism in output growth in the fourth quarter of 2020, due to the positive outlook for most economic activities.

Accordingly, the economy is expected to recover from recession by the end of 2020, while inflation is projected to moderate by the first quarter of 2021.

The Committee's Considerations

The Committee's considerations remained focused around tailwinds imparting upward pressure to domestic prices and key headwinds to output growth.

The Committee noted that inflation continued to be driven by supply side disruptions arising from the COVID-19 pandemic and other legacy factors. Key amongst these are: the security challenges in parts of the country; increase in food prices; and the recent hike in pump price of PMS and electricity tariff. The MPC, therefore, emphasized the need to address structural supply side issues putting upward pressure on costs of production and unemployment. To address the public health crisis associated with the COVID-19 pandemic, the Committee urged the Federal Government to make relentless effort to procure a substantial quantity of the COVID-19 vaccines to surmount the public health crisis and pave the way for a broader macroeconomic recovery.

The Committee noted that the contraction had bottomed out, since it moderated significantly from -6.10 to -3.62 per cent in the third quarter of 2020. This was so because both the monetary and fiscal authorities had anticipated the impending recession and had put measures in place for its quick reversion. Some of these measures include the Economic Sustainability Programme by the Federal Government and other CBN facilities targeted at households, small and medium enterprises (SMEs), youth empowerment, and reduction of unemployment. It thus, urged the Federal Government to maintain its initiatives targeted at reducing unemployment, particularly amongst the youths, citing the recent EndSARS protests and ensuing agitation by hoodlums as potentially disruptive to output growth in Nigeria. To this end, the MPC reiterated its support for the various development finance initiatives of the CBN to stimulate

production and reduce unemployment. MPC further encouraged the Bank to intensify its efforts by increasing funding to more beneficiaries so as to boost consumer spending and accelerate recovery from recession.

On the Financial Markets, the Committee considered the improved performance in the equities market as a leading indicator of medium-term macroeconomic recovery. It thus urged the Bank to maintain its policies on exchange rate and financial system stability to attract more investment into the Nigerian equities market.

The MPC noted that credit to key sectors of the economy increased and encouraged the continued credit support to employment-stimulating sectors to hasten the recovery of output growth and improve employment particularly among the youths. The Committee emphasized the need for the Bank to maintain its regulatory surveillance over the banking system to ensure that non-performing loans remain low.

MPC noted with pleasure, the CBN's engagement with relevant stakeholders, particularly in the private sector, to hasten the recovery of growth. This engagement would involve collaboration towards job creation and provision of credit facilities to stimulate business activities for both corporates and individuals, particularly those who lost their goods and business premises to hoodlums, during the recent protest.

The Committee's Decision

At this meeting, the Committee focused not only on price stability, but also on the need to speedily take actions to exit the recession. In view of these considerations, the choices before the Committee were focused on whether: to tighten the stance of policy to address rising price levels recognizing its primary mandate of price stability; to ease to support output recovery; or to hold to allow existing policy initiatives to permeate the economy.

The Committee noted that, although the appropriate response to rising inflationary pressure would be to tighten the stance of policy in order to moderate upward pressure on prices, it nevertheless, felt that doing this would exert downward pressure on the recovery of output growth. The Committee also felt that tightening would negate the Bank's desire to expand credit to the real sector at affordable terms, not only to boost production, but also to increase consumer spending. To the Committee, tightening was therefore not the appropriate response at this time.

With the economy, whereas MPC felt that government spending and Bank's expansionary stance would be desirable to support recovery and guide the economy out of recession, it felt loosening would trigger excess liquidity and worsen the inflationary pressure. MPC also felt that excess liquidity may impact demand pressure and fuel further depreciation of the naira.

With respect to a hold position, the Committee was of the view that this will be beneficial as it will allow current policy measures to permeate the economy while observing the trend of developments. The Committee also felt that the heterodox policies of the Bank targeted at various sectors are showing positive results that would further engender growth.

On balance, the MPC was of the view that, although all three options offer some benefits to the economy, the hold option was desirable at this meeting. Based on these factors, members, voted in line with the most pressing need towards reversing the recession and achieving medium term macroeconomic stability.

In view of the foregoing, the Committee decided by a unanimous vote to retain all parameters.

In summary, the MPC voted to:

- I. Retain the MPR at 11.5 per cent;
- II. Retain the asymmetric corridor of +100/-700 basis points around the MPR;
- III. Retain the CRR at 27.5 per cent; and
- IV. Retain the Liquidity Ratio at 30 per cent.

Thank you.

Godwin I. Emefiele

Governor, Central Bank of Nigeria

24th November, 2020

PERSONAL STATEMENTS BY THE MONETARY POLICY COMMITTEE MEMBERS

1. ADAMU, EDWARD LAMETEK

The global economy is showing prospects of recovery from the fallouts of the COVID-19 pandemic and commodity price volatility. World output is forecast to contract by 4.4 per cent, from 4.9 per cent contraction envisaged previously by the International Monetary Fund (IMF). The World Bank is slightly less optimistic with a forecast of 5.2 per cent contraction in 2020. The improvement in outlook comes on the heels of recent progress with COVID-19 vaccines, significantly eased global financial conditions as well as increased tempo of economic activity (trade especially) across the world. Nevertheless, there remains a great deal of uncertainty, coming especially from the second wave of the COVID-19 pandemic, which has resulted in resumption of partial lockdowns in Europe and Japan. Adding to the cloud over global output recovery are the political impasse in the United States following the November 2020 presidential election and other geo-political risks (Iran, China, Syria, Israel/Palestine).

Meanwhile, commodity exporting countries continue to face additional uncertainty arising from commodity price instability. For Nigeria, low and volatile oil prices is a major cause for concern just as it is for most OPEC member countries. This and the other downside risks identified earlier could drag global output recovery. Even though some economies could be out of recession by Q2 2021, regaining the output momentum of 2018/2019 (before COVID-19) could take much longer. I think that Emerging Markets and Developing Economies (EMDEs) should view the presumption of a spiffy global recovery implied by most of the current forecasts with caution. First, based on the presumption of a sharp recovery, policy makers could underestimate the amount of adjustment needed to weather a slower and more difficult global environment. Second, domestic policy calibrations could inadvertently be tailored to quick fixes rather than a more comprehensive reform agenda needed to realign the economy to

the emerging economic order (new normal) of asymmetric external spillovers – weak gains from positive external conditions and strong/heavy penalty from adverse ones. An indication of the former is here – capital inflows to most EMDEs including Nigeria has remained sluggish despite the unprecedented (high) liquidity injections and (low) yields in the advanced economies. Similarly, a rebound in global growth, whenever, is unlikely to be accompanied by crude oil prices as high as witnessed in the 2000s until the global financial crisis. It is therefore pertinent for oil producing economies like Nigeria to look more in the direction of non-oil activities for recovery.

Nigeria's real gross domestic product (GDP) contracted by 3.62 per cent in Q3 2020, implying a descent into a recession. However, relative to Q2 which recorded a contraction of 6.10 per cent, the Q3 outcome represents a significant improvement. Beneath the headline, we find some interesting undercurrents. Agriculture remained positive at 1.39 per cent, while Crude Petroleum and Natural Gas contracted twice as much as in Q2 2020. Importantly, the improvement in output during the quarter was driven mainly by Industry which climbed about 6 percentage points from -12 per cent in Q2, thanks to Construction and Manufacturing. These details underscore the importance of the real sector interventions by the Central Bank of Nigeria (CBN) in the wake of the COVID-19 pandemic. Looking ahead, I could see prospects of an early exit from the current recession, premised on a more hopeful global economic environment following the rapid progress with vaccines; trends in overall and sector GDP performance from Q2 to Q3 2020 with Q3 real GDP outperforming most projections; rising PMIs and capital market indicators; robust credit flow to the real sector as the loan-to-deposit ratio (LDR) and differentiated cash reserves requirement (DCRR) policies continue to make impact, strengthening the effect of interventions in the real sector; impact of harvests and the promise of the Economic Sustainability Plan (ESP).

Meanwhile inflation remains muted in advanced economies, but creeping up in some EMDEs including Nigeria, owing to depreciating exchange rates and supply bottlenecks. Although most analysts would not blame monetary expansion for the consumer price pressures in some EMDEs, the element of increased (pent-up) demand could partially embody the influence of cheap money. As such, even as monetary and fiscal stimuli appear to be the ace in the race against output and employment losses, growth promoting policies in these countries must be designed to target activities that directly support production and ease supply. In the face of rising domestic inflation underpinned by exchange rate pressures, further easing of monetary conditions must be predicated on the principle that, by directly incentivizing production and supply, both low inflation and output expansion may be within reach. The CBN Monetary Policy Committee (MPC) has been guided by this consideration, which in my view has proved to be credible. Both the LDR and DCRR policies have ensured unprecedented flow of credit to growth and employment promoting sectors, which is partly why we can be optimistic about early recovery from the current recession. Along same line of reasoning, I am persuaded that a more aggressive implementation of the development finance interventions of the Bank would quicken recovery and ease supply-induced pressures on consumer prices. From the fiscal side, measures aimed at alleviating production and distribution bottlenecks will equally be significant. In particular, security remains a priority towards evacuation from farm and distribution of food commodities across the country.

I should emphasize that at the root of the present economic crisis is a health crisis, COVID-19 pandemic. And so, policy priorities must therefore continue to include; (1) financial support to activities that are most constrained/impacted by the pandemic as revealed by the Q2 and Q3 output numbers and (2) securing more resources for the health system. The CBN is almost at the limits of what monetary instruments can do. Therefore, fiscal policy must step in to deliver

long-term economic stability even if, as it were, the capacity to do so appears to be thin currently in view of multiple constraints on public finances. Government nevertheless must find a way to promote resource development – the recourse under the present circumstances for Nigeria appears to be external financing. This is because, increasing taxes in a recession can be challenging and perhaps, counterintuitive.

Finally, at the November 2020 meeting of the MPC, I opted for a hold position, having viewed the extant monetary policy stance as enough to keep liquidity conditions optimal. It is comforting that the domestic money market has remained stable and supportive of economic activity. I saw no credible risk to system liquidity in the short- to medium-term, given the impressive financial soundness indicators (FSIs) coming from the banking system. Industry capital adequacy continues to be robust just as earnings and liquidity. Despite significant expansion in the loan books, banks' non-performing loans have remained reasonably contained and well provisioned. I should say that sustained financial stability will be essential to the output recovery process.

In summary, I voted to:

Retain the Asymmetric Corridor at +100/-700 basis points around the MPR;

Retain the MPR at 11.5 per cent;

Retain the CRR at 27.5 per cent; and

Retain the Liquidity Ratio at 30 per cent.

2. ADENIKINJU, ADEOLA FESTUS

Overview of International Development

The rise of second wave of the coronavirus is driving more countries to go back to some forms of lockdown to slowdown the pressure on hospitals, healthcare facilities and hospital personnel, as number of cases and death soar. The lockdown and other forms of restrictions to the economy may reduce the strength of expected recoveries and impacts on demand for oil and gas and other commodities. Counterbalancing this, however, are the exciting news about several vaccines which are expected to receive emergency authorization in most countries. Hence, global output growth for 2021 is forecast to improve to 5.2% in 2021 from -4.4% in 2020.

Domestic Economic Performance

The presentations by Bank Staff show that Real GDP declined by -3.62% in Q3.2020, an improvement over the -6.10% recorded in Q2.2020. The oil and non-oil sectors contracted by -13.89% and -2.51% in Q3.2020, respectively. Equity market indices, the All-Share Index (ASI) and Market capitalization rose significantly between September and November 2020. All components of inflation rose in October 2020; however, food inflation rose the highest. Headline inflation rose to 14.23% in October, up from 13.71% in September 2020. The increase in inflation is due to increase in food and non-alcoholic beverages and core inflation. Broad Money in October 2020, which stood at 3.53% was below the revised provisional benchmark of 4.66%. Exchange rate continues to be under significant pressure as the gap between the I&E rate and the BDC rate widened.

The CBN monthly Purchasers Market Index shows that employment recovery lags output recovery. The unemployment rate is above NAIRU, and the negative output gap widens significantly to -9.10% in Q2.2020, from -2.1% in Q1, 2020.

Capital inflow remains low and fiscal position of the Government is weak. Oil production and export are below 2020 budget provisions.

However, the relative health of the financial sector is strong. The financial soundness indicators for the month of October 2020 were generally good. The Non-Performing Loans Ratio improved over the last MPC meeting. The Liquidity Ratio remain above the minimum prudential requirement. The Returns on Equity and Returns on Assets for the Banking Industry are steady and perform relatively better than for comparator countries. Aggregate deposits continue to grow despite the sharp fall in deposit interest rates. Other major industry size indicators like Assets and Credits continue their upward positive trajectories. There is improved lending to the real sector by both the deposit money banks and the other financial institutions. These suggest that the CBN is managing the impacts of the pandemic shocks on the financial sector relatively well. Allowing banks to restructure their loans portfolio was a wise decision. However, the CBN should continue to maintain strong surveillance over the industry and guide the orderly winding down of the policies put in place to control the impacts of the pandemic on the banking sector.

The impressive performance of the various intervention funds also show that Nigerians are taking advantage of the funds to boost households demand and improve output of small and medium scale enterprises. The Bank should continue to monitor the disbursement of the funds to ensure wide access and efficient performance of the funds. Information presented by Bank staff show that there is geographical coverage in the disbursements of the funds.

General Considerations

The Nigerian economy slipped into recession in Q3. 2020, following two consecutive contractions of output growth. This is not peculiar to Nigeria, as general expectation is that vast majority of countries will record negative GDP

growth rates in 2020. Inflation has also ticked up in most emerging and developing countries, while several countries also experienced depreciation in their local currencies against the dollar for most of 2020.

However, the rise in inflation in Nigeria is not totally unexpected. The current strategy to expand aggregate domestic supply to boost economic growth and employment rates and consequently reduce general price level is not a short-term objective. This strategy of expanding credit, to boost supply and growth, in my view, contributed to the less than steep decline in economic growth in Q3.2020, as vast majority of sectors improved on their growth performance in Q3. 2020 relative to Q2.2020. Business optimism for December 2020 and January 2021, reflected in the Business surveys by the Bank is on the rise. Empirical studies have shown that sectors like trade, agriculture and education will help inclusive recovery and deserve support.

However, there is a need to address the wide divergence in the exchange rates in the BDC and I&E windows. The current intervention focuses more on demand management, rather than on finding ways to expand alternative sources of foreign exchange supply to the market. The country must reverse the current significant deficit in the balance of trade account. If imports continue to exceed exports, our foreign reserves will continue to be under significant pressure. We must focus attention on export competitive and local competitive industries.

While there is a marginal downward trend in retail lending rates, the gap between the lending and deposit rates remain unacceptably high. The banks should be persuaded to do more to lower retail lending rates to complement the current policy stance of the CBN.

As was suggested in my previous Personal Statement, there is a need to frontload some of the intervention programmes under the Economic Sustainability Plan. In addition, the Federal Government interventions should

focus more on public works, and capital projects, that offer direct employment to Nigerians, rather than direct cash transfers, given especially the lack of supporting data and institutional weaknesses around direct money transfers in Nigeria.

Decision

I believe ongoing intervention policies and programmes should be allowed to work, while we monitor their developments and improve on their effective implementation. I have not really seen anything in Q3.2020 that I was not expecting after our earlier decisions in sectoral output relative to Q2.2020, though prices also rose largely reflecting both supply and distributional issues, as well as pressures from the foreign exchange market. There is a need to look at the exchange rate policy to ensure we are not unduly penalizing the supply side of the market. A review of the land border closure to provide respite on pressures within the local market is also due.

Based on the above I cast my vote at this meeting to maintain all existing monetary policy parameters:

1. Keep MPR at 11.5%
2. Maintain CRR at 27.5%
3. Maintain Liquidity Ratio at 30%
4. Maintain Asymmetry Corridor around the MPR at +100 / -700 basis points.

3. AHMAD, AISHAH N.

The November 2020 MPC meeting and last for the year held against a backdrop of promising results of COVID-19 vaccine trials by at least three major global pharmaceutical companies. Whilst oil prices and stock markets rebounded on this positive news, emergence of a second and in a few cases, third wave of infections in some countries slightly dampens the hopes of return to normalcy by the global economy.

The domestic economy on its part, formally entered a recession given the release of the third quarter 2020 (Q3 2020) real GDP figures of -3.62 per cent. Though negative for the second consecutive quarter, it is notable that this performance was a marked improvement (40.7 per cent) from the Q2 2020 GDP figure of -6.10 per cent. Further assessment of the GDP data showed that 17 out of 46 sectors grew in Q3 2020, compared with 13 sectors in the previous quarter, providing cautious optimism that the recession will be short lived.

This positive outlook of a rebound in economic activity over the medium term is further supported by the gradual improvement in the Manufacturing and Non-manufacturing Purchasing Managers' Indices (PMIs) which rose to 50.2 and 47.6 index points, respectively in November 2020, compared with 49.4 and 46.8 index points in October 2020. The employment level index component of both PMIs also improved in November 2020 to 47.3 index points and 46.7 index points, respectively, from 46.0 index points and 44.2 index points in October 2020.

Downside risks to growth prospects – limited fiscal space and volatile crude oil prices persist, amidst recent unrests in the country, requiring focused and coordinated fiscal and monetary policy actions to drive a quick and sustainable recovery. Opportunities to ramp up fiscal revenue, improve FX supply and stabilize the exchange rate exist in rigorous pursuit of export proceeds from the non-oil sector of the economy, which thankfully contributed significantly to Q3

2020 GDP growth. Intensified implementation of the Economic Sustainability Plan alongside ongoing targeted interventions by the Bank, which have been expanded to cover more sectors, such as health, education and particularly the youth population, will be critical in accelerating the recovery.

The persistent rise in domestic prices remains a concern, with headline inflation (year-on-year) rising for the fourteenth consecutive month to 14.23 per cent in October 2020 from 13.71 per cent in September 2020. This was attributed, as presented by data from the National Bureau of Statistics, to increases in both food and core inflation, which rose to 17.38 and 11.14 per cent in October 2020 from 16.66 and 10.58 per cent in September 2020, respectively. Structural issues such as insecurity, supply chain disruptions due to the pandemic combined with impact of exchange rate adjustment and increases in VAT, price of PMS and electricity tariff continue to drive domestic prices northward. Further uptick in prices may also be expected in the near term as the traditional end of year spike in economic activities sets in; however, this should taper in the first quarter of 2021 as the harvest is concluded and food production improves.

Exchange rate pressures persisted in response to low foreign exchange supply and rising FX demand as domestic and global travels and economic activities resumed. The Bank's strategic exchange rate management initiatives including adjusting the exchange rate in response to market fundamentals, eliminating over-invoicing and mispricing of imports into the country via an independent Product Price Verification Mechanism to ensure that quoted prices are validated before Forms M are approved, are expected to help moderate the FX supply - demand imbalance. These initiatives would also help reduce spurious and speculative demand, improve receipts of legitimate FX earnings and attract foreign portfolio investment, thereby stabilizing the exchange rate. With the gradual recovery in crude oil prices, currently over US\$40 per barrel from low

levels of US\$20 per barrel in Q1 2020, FX inflows are expected to improve, while other more sustainable sources of FX supply continue to be explored.

The financial system retained its operational and financial resilience, sustaining critical support to the economy through the crisis. Credit growth remained on an upward trajectory with robust soundness indicators and sustained decline in average lending rates.

For instance, gross credit grew by N290.13 billion between end-August 2020 and November 13, 2020 while total gross credit growth of N3,976.34 billion was recorded from N15,567.66 billion at end-May 2019 to N19,544.00 billion at November 13, 2020. Much of this credit was channeled to manufacturing, consumer, general commerce and agriculture - all key employment generating sectors. This was broadly driven by effective implementation of the Loan to Deposit Ratio, Interventions and other complementary policies to ramp up credit to the economy.

The gradual decline reported in lending rates is a positive development that improves access to credit for more households and businesses with a view to stimulating economic activity, creating jobs and driving a more sustainable and inclusive growth. As at October 2020, 86.23 per cent of total loans granted to over one (1) million customers, by Deposit Money Banks (DMBs) were at interest rates considerably below 20 per cent; an improvement from 76.43 per cent as at July 2019.

This low interest rate environment was also reflected in the Open Buy Back rate which stood at 1.88 per cent at end-October 2020, an indication of a highly liquid banking system. Under this scenario, the Bank must maintain vigilance to ensure optimal liquidity levels to support price stability and sustainable economic growth.

Industry financial soundness indicators strengthened with non-performing loans ratio declining to 5.7 per cent at end-October 2020, from 6.1 per cent (end-August 2020), while capital adequacy improved to 15.5 per cent from 15.3 per cent over the same period. Profitability performance also remained satisfactory buoyed by improvement in non-interest income. Financial sustainability of banks will be paramount as moratoriums on restructured loans lapse in the near term to strengthen absorptive capacity for any potential losses and maintain lending support to the real economy.

Policy decision

Although the global economy witnessed a better-than-expected recovery in the third quarter of 2020, headwinds largely associated with the COVID-19 pandemic and weak crude oil prices persist. Nonetheless, news of a likely effective corona virus vaccine on the horizon raises hopes of a more robust global economic recovery.

Whilst the domestic economy formally entered into recession in Q3, outlook for the economy remains broadly positive given an expected return to normalcy in global travels and economic activity - as vaccines are administered - and trends observed from the Q3 2020 GDP numbers, which suggest an upward trajectory in domestic output. Nonetheless, it is imperative to facilitate a strong and inclusive economic recovery through expansionary fiscal policies if the country is to exit recession quickly, especially given the significant negative impact of the pandemic on key macroeconomic variables.

The fiscal space however, remains significantly constricted, requiring monetary policy to step in further. This is even as Inflation continues on its upward trend, a threat to the primary remit of the Committee requiring tighter monetary policy, which would be counterproductive for an economy in recession. As noted in my September statement, the monetary authority is thus faced with very difficult

tradeoffs, making the case for maintaining the policy stance very strong at the moment.

A number of factors support this assertion. Although output growth remains challenged, it is expected to turn the corner in the near term, fueled by increased lending to the manufacturing, agriculture and consumer goods sectors and a progressively lower interest rate environment.

I also reckon that sustaining and ramping up ongoing fiscal and monetary initiatives to stimulate the domestic economy, which are beginning to yield fruit, would accelerate growth and help reduce supply shocks to inflation in the medium term. More so, given the understandably lengthy lag of monetary policy, the effects of previous decisions are still permeating the system. In my view, a policy adjustment could trigger unwarranted shocks and derail an imminent recovery; thus, presenting no compelling reason to alter the monetary policy stance at this time.

Based on the foregoing, **I vote to hold all parameters at existing levels;** Retain the MPR at 11.5 per cent; Retain the asymmetric corridor of +100/-700 basis points around the MPR; Retain the CRR at 27.5 per cent; and Retain the Liquidity Ratio at 30 per cent.

4. ALIYU, AHMED

INTERNATIONAL AND DOMESTIC ECONOMIC DEVELOPMENTS

The global economy has continued with an uneven recovery path following the lifting of institutionalized lockdowns in most countries. However, output growth is being threatened by the emergence of the second wave of the COVID-19 global pandemic in many jurisdictions which has engendered renewed inhibitive measures to curb the spread. Against this backdrop, the recent development of effective vaccines to combat corona virus has generated some excitement and cautious optimism that the global economy would experience a slower than expected deceleration in output at end-Q4 2020.

The revised October 2020 forecast of the International Monetary Fund (IMF) shows that global output is expected to contract by -4.4 per cent at year-end rather than the -4.9 per cent projected in June due to better than anticipated economic performance in most advanced economies in Q2 2020 and an even better expected outturns in the third quarter. Moreover, the synchronized efforts of fiscal and monetary authorities in both Advanced and Emerging Market Economies in providing liquidity support to economic agents is a significant factor in the moderation of the deep global recession envisaged at end-2020. Thus, the Advanced Economies are now expected to contract by -5.8 per cent in 2020 and rebound to a positive growth of 3.9 per cent in 2021 compared with the June IMF projection of -8.0 and 4.8 per cent, respectively. The new IMF update also indicates that the Emerging and Developing Market Economies (EDMEs) will witness growth of -3.3 and 6.0 per cent in 2020 and 2021, respectively.

There is a strong positive correlation between global economic performance and external trade flows. The pandemic and the accompanying containment measures dealt a debilitating blow to cross-border supply chains and resulted in

a precipitous fall in aggregate demand and global output, never seen since the end of World War II. Large-scale and widespread economic disruptions of this magnitude constrained regional and global trade. Consequently, the IMF forecast that global trade will nose-dive by -10.4 per cent in 2020 – a slight upgrade from the forecast of -11.9 per cent in June 2020, this has serious implications for Government revenue in developing countries like Nigeria.

The persisting lull in the international crude oil market has kept prices muted around US\$40 per barrel. Although this trend is much below the pre-pandemic level, the picture may get better in the foreseeable future as the development of effective COVID-19 vaccines is giving rise to renewed impetus in the global economy. Moreover, should the plan by OPEC+ to extend production cut to the first quarter of 2021 crystalize, the horizon for oil price would brighten further in the near term. This scenario may improve strategic foreign exchange management by the Bank to maintain exchange rate stability and douse the pass-through of imported inflation into domestic prices. Moreover, the Bank should continue to identify and remove deleterious inhibitions to autonomous inflows of foreign exchange into the Nigerian economy. Besides, the need for a conducive and secured business environment cannot be over-emphasized as it will encourage the inflow of foreign portfolio and other investments.

Price development data from the National Bureau of Statistics (NBS) reveals that headline inflation (year-on-year) continued its upward trajectory as it rose to 14.23 per cent in October 2020 from 13.71 per cent in the preceding month. Food and core inflation (year-on-year) also climbed to 17.38 and 11.14 per cent from 16.66 and 10.58 per cent, respectively in the review period. On a month-on-month basis, headline, core and food inflation soared to 1.54, 1.25, and 1.96 per cent in October 2020. The principal drivers of headline inflation are food, non-alcoholic beverages, housing, water, electricity, gas as well as other fuel. Both food and core inflation are majorly propelled by processed food. The on-going

massive interventions in the area of agricultural production is yielding favourable outcomes as the average price of farm produce (m-o-m) declined by 0.41 percentage point from 1.16 per cent in September 2020 to 0.75 per cent in October.

According to the data recently released by NBS, the Nigerian economy slipped into recession – the second since Q2 2016 – after output contracted for the second consecutive quarter. Real GDP shrunk by -3.62 per cent in Q3 2020 compared with -6.10 per cent in the preceding quarter. The resilience of the Nigerian economy came to the fore as the negative growth moderated by 2.48 percentage points in Q3 2020. Sectorial consideration indicates that the oil sector performance worsened in Q3 2020 by recording a contraction of -13.89 per cent compared with -6.63 per cent in the previous quarter, while the non-oil sector grew by -2.51 per cent in Q3 2020 which is a remarkable improvement of 3.54 percentage points over the -6.05 per cent in the previous quarter. CBN staff projections based on several oil price scenarios show that negative real GDP growth will persist up to Q1 2021. The Purchasing Managers Index (PMI) corroborates the uptrend in economic activities as the Manufacturing PMI crossed the breakeven point to 50.2 index points in November 2020 compared with 49.4 index points in October. The Non-Manufacturing PMI, although below the 50.0 mark, improved nevertheless to 47.6 index points in November 2020 over the 46.8 index points in the preceding month.

The salutary growth outcome is strongly driven by the synchronized fiscal, monetary and regulatory responses that provided massive credits and other support to households and businesses to enhance personal consumption, investment and aggregate demand. For instance, the Government is implementing the Economic Sustainability Plan, the SME Survival Funds initiative, mass housing schemes, solar-powered homes, 798 km road network by the private sector (in return for tax rebates), massive job creation activities in all the

774 LGAs, amongst others. Moreover, the Central Bank of Nigeria has made great strides with its COVID-19 credit facilities, including the healthcare fund, targeted credit facility, real sector funds, the Agri-Business Small and Medium Enterprises Investment Scheme (AGSMIS) and the Creative Industry Financing Initiative (CIFI). These interventions constitute veritable game changers in the present recessionary economy.

Monetary developments indicate that broad money (M3) grew by 3.53 per cent in October 2020 compared with 3.20 per cent in September. Likewise, banking system deposits rose by 23.6 per cent to N30.92 trillion in October 2020 compared with N25.02 trillion in January 2020. The net banking system liquidity closed at N655.42 billion on October 30, 2020. Hence, it is necessary to continue the use of relevant policy tools to mop-up excess liquidity above the safe threshold. Concurrently, well-targeted credit delivery to productive economic sectors should be sustained to rapidly expand aggregate demand. Total credit increased by 10.5 per cent to N19.39 trillion in October 2020 from N17.54 trillion in January 2020. The momentum of implementation of the Loan-to-Deposit Ratio Policy and other growth-enhancing policies should be geared up to assure a quick exit from recession.

The improved Q3 2020 growth outcome is in harmony with the rising positive sentiments in the equity market due to portfolio rebalancing from fixed income securities to equities. Thus, the All-Share Index (ASI) increased by 20.55 per cent to 30,530.69 on October 30, 2020 from 25,327.13 in the preceding month. Market capitalization also recorded a leap of 20.82 per cent to N15.96 trillion from N13.21 trillion during the review period. These trends sign-post an economy on a recovery track. In general, the banking sector remains stable as key financial soundness indicators and stress test portray a robust system capable of withstanding destabilizing shocks and delivering the growth agenda.

CONSIDERATION FOR VOTING

In determining policy choice, I considered the various competing objectives of monetary policy, which include: output growth, taming spiraling inflationary pressure and maintaining stability in the foreign exchange market. **On output growth**, I observed that the policy rate was cut in the previous Monetary Policy Committee Meeting and knowing that monetary policy operates with a lag, some reasonable amount of time is required to allow the effect of policy measure to get underway. For instance, the short term interest rate (represented by Open-Buy Back – OBB – rate) appears to be responding to policy as it declined from 1.34 per cent in September 2020 to 0.75 per cent in October. The short term rate may transmit into lower commercial bank lending rate. Importantly, the growth momentum is expected to heighten further as the implementation of COVID-19 stimulus package continues to unfold. **On persistent inflationary pressure**, the recent deceleration in the average price of farm produce from 1.16 per cent in September 2020 to 0.75 per cent in October is indicative that the upward price trend may reverse in the near term. Moreover, the Bank is expected to continue its aggressive mop up of excess liquidity with the CRR policy and other means to curtail inflation. **On exchange rate stability**, the development of corona virus vaccines and possible extension of OPEC+ oil cut may translate into higher crude oil prices, increase in external reserves and better exchange rate management.

In view of the above considerations and taking into cognizance the need to allow the extant policy thrust to permeate through the economic system, **I voted to retain all policy parameters** at their present levels:

- MPR at 11.5 per cent
- The Asymmetric Corridor at +100/-700 basis points around the MPR
- Liquidity ratio at 30.0 per cent/annum
- CRR at 27.5 per cent/annum

5. ASOGWA, ROBERT CHIKWENDU

Background:

The resurgence of the COVID-19 pandemic since September 2020, particularly in Europe and North America has created disruptions and considerable uncertainty about the future. The darkened economic picture since November has triggered some changes in policy outlook as many countries now expect a setback in recovery. While this second wave of the pandemic may result in very different economic outcomes across the developed and developing economies, the recovery prospects will largely depend on the new spread of the virus, the sectoral growth drivers of the national economies as well as the strength of national policy responses. Monetary policy decisions in the near term, should therefore reflect these expectations at the global and domestic levels as well as uncertainties surrounding the new forecasts.

Global Economic Outlook rebound appears Interrupted in Q4 of 2020:

The global economy suffered a severe shock in the first half of 2020 but rebounded strongly with impressive third quarter GDP growth across several developed economies. However, this rebound has been interrupted by the unfolding second and third waves of the Covid-19 pandemic. The incomplete recovery has introduced some considerable uncertainty in the economic forecast for the fourth quarter of 2020 and the first quarter of 2021.

CBN staff report show some sharp quarter 3 recovery in many economies which earlier appeared to maintain solid economic performance heading into quarter 4. In the US, growth expanded in the third quarter of 2020 by 33.1 percent compared with a contraction of -31.4 percent in the second quarter. In the Euro Area, GDP grew by 12.7 percent in the third quarter of 2020 after it contracted by 11.8 percent in the second quarter, but in China, growth slowed in quarter 3 to 2.7 percent after a sharp recovery to 11.7 percent in the second quarter.

The outlook for the global economy for now remains highly uncertain and largely depends on the future path of the virus and if there are early successes in bringing the second and third waves of infections under control. The recent forecast based on the possibility of a protracted new wave of the pandemic is that global growth will fade in the closing months of 2020 and up to the beginning of 2021. In the Eurozone, real GDP is expected to contract in the fourth quarter of 2020, while recovery will be limited in the first quarter of 2021. Growth in the US is now expected at 3.7 percent in the fourth quarter with average growth in four quarters of 2021 projected at only 1.9 percent. In the UK, growth is also expected to fall by 11 percent in 2020, which may be the largest drop in annual output in more than a century. The outlook is however brighter in most parts of Asia and it is anticipated that global growth in the next few months will depend on Asian countries, notably China, where the threat of a second wave of infections are reduced. For the emerging markets and developing economies, given the negative spill overs from the growth weakness in major economies alongside the disruptions associated with the individual country outbreaks, growth outcomes in the last quarter of 2020 and first half of 2021 are expected to contract, but at varying degrees and may be worse for commodity exporting countries with the persisting weak demand.

Inflation remains subdued in a number of developed economies even though there are nascent fears of money flooding the economies given the significant fiscal stimulus programmes in recent times, which may possibly result in runaway inflation further down the line. In the Euro Zone, headline inflation has been benign and even pushed into negative territory in recent months with the steep fall in energy prices. This is similar to the United States where inflation has not markedly changed since the start of 2020. Several emerging and developing countries are also experiencing moderated rates of inflation, while in a few others, especially in Africa, where food supply shortages have continued to put upward pressure on the general price level.

Expectedly, monetary policies are set to remain supportive in a number of countries. As many Central Banks appear to have reached lower limits with respect to interest rate cuts, the announcements in the last six months have been much more of unconventional policy tools- than they are about interest rates. The various asset purchase programmes including the pandemic emergency purchase programme which the European Central Bank introduced had by mid-2020 surpassed 1,350 billion euros. The sharpness of recovery from the second and third waves especially for developed countries will depend largely on the willingness of governments to extend and possibly increase the recovery support programmes which they already started at the beginning of the crisis. The encouraging news about the vaccine shows that the stimulus packages can be phased out early next year especially given the noted concerns about possible potential inflationary impact of these additional money supply.

Domestic Economic Recovery also looks bumpy:

Both positive and negative factors, partly counteracting each other have characterised recent domestic economic outlook. Although the quarter 3 output growth figures which as was widely expected remained at negative territory of -3.62 percent, it is an improvement from the -6.10 percent growth recorded in quarter 2. There are also indications of a strong economic momentum heading into quarter 4. Besides, the gradual recovery in oil prices, CBN Staff data show that the Nigerian Manufacturing PMI improved in November 2020, rising above the 50 index points benchmark for the first time in six months. Similarly, the non-Manufacturing PMI also improved in November when compared to the position in September and October 2020.

Also, on the positive side are the developments in the equity market and the banking system. The increase in equity market capitalization by 20.82 percent between September and October 2020 is an indication of growing local market

sentiments and investors continuing trust that the supportive fiscal and monetary policies by Government will probably lead to a faster economic rebound. Similarly, banks performance data still show strong resilience in the industry, similar to the situation at the September 2020 MPC meeting. The decline in the non-performing loans ratio between August and October 2020 as well as the strong profitability indicators certainly rules out the possibility of any financial market risk in the near term.

The rising inflationary trend and the growing public debt however remain the principal risk factors on the negative side which have created considerable uncertainty. Inflation rate in Nigeria had by October 2020 climbed to a 30 month high up to 14.23 percent from 13.71 percent in September 2020. Recent projections by CBN Staff suggest further increases in both headline and core inflation in December 2020 and January 2021, especially as food supply shortages as well as rising petrol and electricity prices remain unaddressed.

The pandemic has put the public finances at the national and sub-national levels in a weaker position and fiscal deficit is expected to be very significant in Nigeria in 2020 as Government social and infrastructure spending rises and revenue falls especially for crude oil receipts. Staff report show that in September 2020, Federal Government fiscal operations recorded a 60 percent deficit in expenditure as revenues could only cover 40 percent of total expenditure. These recent increases in borrowing renders Nigeria's public finances more vulnerable to changes in financing conditions and other future shocks. Arresting the continued rise in public debt is likely to require some fiscal adjustment and expenditure efficiency especially after the COVID-19 pandemic has run its course.

Looking beyond the next few months, we see a rosier economic picture that will emerge progressively in Nigeria, particularly from the second half of 2021. There is growing optimism that local consumption and investment which has been

spurred by CBN's recent credit interventions in various sectors will catalyse normalization of growth dynamics. Moreover, the post-Trump era and Brexit conclusions will likely spur global trade and improve demand for commodities.

Decision:

While the third quarter GDP data points to a notable rebound of economic activity from the slump in Quarter 2, the recent spike in the COVID-19 virus and the gradual re-introduction of restrictions in a number of advanced countries has heightened uncertainty which may probably weigh on the output growth in Q4. Against this background, monetary policy stance should remain fairly expansionary in order to support the recovery in economic activity, even though on the price front, the upward pressures arising from supply shortages remain unabated.

Despite some speculation about another cut in policy rates, this position seems unlikely now given the existing uncertainties and the need to allow the effects of the last policy adjustments permeate in the financial system. A wait-and-see approach with benchmark rates unchanged whilst ensuring that monetary policy remain supportive and synchronised with developments on the fiscal side is the best option. An expansion of the existing easing package and the Government COVID-19 support programmes will help to mitigate the adverse impact of the COVID-19 health crisis and sustain the economic recovery process. As it stands now, the Central Bank of Nigeria may be expected to continue to shoulder much of the burden of this expanded easing package given the persisting revenue challenges on the part of the fiscal authorities.

I will thus vote to:

- Retain the MPR to 11.5 %
- Retain the CRR at 27.5%
- Retain the Asymmetric Corridor at +100/-700 basis points

- Retain the Liquidity Ratio at 30.0%

6. OBADAN, MIKE I.

INTRODUCTION

Like the 275th meeting, the 276th meeting of the Monetary Policy Committee was held in the environment of covid-19 pandemic. This pandemic has continued to impact global economic developments and performances of individual economies. Following the easing of economic lockdowns and gradual relaxation of restrictions to movements of goods and persons within countries and between countries, economic activities started to revive impacting positively global demand and growth. However, it seems that some countries relaxed the coronavirus containment measures rather prematurely or the governments did not have the political will to implement them so as to have an effective handle on the pandemic. Hence, the emergence of second wave of COVID-19 in several advanced countries including the United States, United Kingdom, France, Ireland, Belgium and Australia. A third wave of covid-19 is being experienced by Japan. The first wave covid-19 caused huge contractions in countries' national productivity and output. Now, the relatively weak recoveries achieved after the first wave is being threatened by a second and even third wave of the pandemic. In these countries economic activity and return to normal economic activities are being undermined by rising cases of covid-19. Strong containment measures, including the re-introduction of local and nation-wide lockdowns in some cases, to tackle the pandemic have negative implications for global demand, recovery and growth. The implications of weak recovery for global demand for crude oil, upon which Nigeria depends for its fiscal and foreign exchange sustenance, are very grave. There is the good news though that in the short to medium-term, there is likely to be light at the end of the tunnel following the November 9, 2020 report that the United States

pharmaceutical company, Pfizer and its German partner, BioTech SE, have developed a covid-19 vaccine that is over 90 percent effective in addressing covid-19. Some other companies have also announced break-throughs on corona-virus vaccine. It is to be hoped that the vaccines will be accessible to the poor countries and that their governments would do the needful to enhance access of their citizens to the vaccine when available. Successful vaccine will boost confidence, reduce uncertainty and boost global economic activities including trade.

MAJOR GLOBAL DEVELOPMENTS

Until the resurgence of fresh waves of covid-19 in some advanced countries, global growth prospects seemed good. Among the advanced countries, the United States, Eurozone, United Kingdom and Japan recorded notable positive growths in the third quarter: 33.1, 12.7, 15.5 and 5.0 per cent, respectively, compared to huge contractions in the second quarter of 2020. Among the Emerging Market and Developing Economies (EMDEs), China is still operating in the positive growth territory. It recorded positive growth of 2.7 percent in the third quarter although much lower than its 2nd quarter growth rate. And from the IMF's growth forecast for 2020, China stands out as the only country likely to achieve positive growth rate: 1.9 percent. With effective containment of the fresh waves of covid-19 and the availability of effective vaccines, the growth prospects for 2021 seem good considering the projections of the IMF and World Bank: -4.4 and 5.2 per cent in 2020 and 2021, respectively. One rather curious thing about the corona virus is that China, which first reported the virus, has long had a good handle on the disease, revived economic activities, and experiencing positive growth that is projected to be higher than those for other countries in 2021. Other countries have not learned lessons from China on how it

contained the virus. It is possible that that country's known political and social discipline must have been a major factor.

Output and trade are very closely related. And so, the uncertainties surrounding global growth arising from second/third waves of the corona virus and the associated containment measures including lockdowns also apply to global trade. Consequently, the realisation of the IMF's projected recovery of global trade by 8.3 percent in 2021 compared to -10.4 percent contraction in 2020 depends on the impacts of the fresh lockdowns.

Generally, global commodity prices have remained weak due to the downturn in businesses and caution being exercised by individuals that are wary of a rebound of coronavirus and the prospects of another downturn in global economy. Crude oil which is of particular interest to Nigeria and other OPEC member countries has continued to be characterised by low prices. Weak demand has continued to affect the market for oil adversely. Coronavirus containment measures, especially lockdown which restricted travel and movements, seriously reduced fuel consumption globally. Consequently, oil prices have continued to move within the US\$40 - 45 per barrel range. As at November 21, 2020, the prices per barrel were as follows: OPEC basket: US\$ 43.12; Bonny Light: US\$ 44.56; UK Brent: US\$ 44.96; and West Texas Intermediate (WTI): US\$ 42.42. These prices are very much below the pre-pandemic levels of between US\$65 and US\$70 per barrel that prevailed in early 2020. The futures oil market projections are not better as they are expected to remain in the US\$ 40.00 – US\$45.00 range. This is not good news for Nigeria which has in 2020 recorded oil production and export that are below the 2020 budget projections. Continuing weak oil market compounds the challenges in Nigeria's fiscal operations and is not helpful to the country's external sector and macroeconomic stability objectives.

One thing that stands out in the global developments is the response of national governments, especially in the advanced countries, to the coronavirus-induced economic crisis. Because of strong concerns for economic recovery, growth and employment, national governments have continued to deploy fiscal and monetary tools to inject stimulus needed to reflate the economies. Expansionary fiscal policy through stimulus packages has been used to ease the impact of the coronavirus-induced economic and health crises. This though has resulted in increased fiscal deficits and public debt. Accommodative monetary policy has also continued to be pursued. In this direction, direct liquidity injection into the economies is being resorted to by central banks as most advanced economy central banks have exhausted their monetary policy headroom with the policy rates straddling the zero-lower bound, for example, US: 0.00 – 0.25%; Japan: - 0.10%; Euro Area: 0.00%; UK: 0.10%. Thus, in line with the accommodative monetary policy stances, most central banks maintained their low policy rates or reduced them where feasible. The Nigerian economy is in a similar position that requires fiscal and monetary measures to quicken economic recovery.

LINGERING DOMESTIC ISSUES

Until the corona virus struck the country in the first quarter of 2020, the Nigerian economy's growth was not outstanding but the growth rates were positive. The successive increases in quarterly growth rates in 2019 were encouraging: from 2.1 percent in Q1 to 2.12 percent in Q2, 2.28 percent in Q3 and 2.55 percent in Q4 giving an average of 2.27 percent for the year. Oil prices were also encouraging along with other macroeconomic indicators. This pattern was disturbed by the coronavirus pandemic which has worsened macroeconomic indicators and public finances. The country has been faced with the challenges of stagflation (recession and rising inflation), exchange rate depreciation, dwindling government revenue/rising public expenditure, growing fiscal deficits

and public debts, capital flows reversals, growing incidences of rising unemployment and poverty, among others. Both the fiscal and monetary authorities promptly deployed their respective tools to address the fall-outs of the coronavirus-induced economic lockdown.

Output growth

Understandably, the Nigerian economy, like most other economies experienced contraction in Q2. But the Nigerian economy experienced rather milder contraction, perhaps, because of the proactive fiscal and monetary stimulus packages implemented by the government. Against the backdrop of gradual easing of the lockdown and implementation of various interventions, the Q3 growth figures are encouraging. Although the Q3 growth figure of -3.62 percent put the economy into a recession, it was far lower than the -6.1 per cent growth rate in Q2 suggesting improvement in growth. And there are signs that the recession could be short-lived:

- Encouraging re-opening of businesses and lifting of restrictions on movements within country and international travels and trade;
- Q3 growth pattern shows signs of a V-shaped economic recovery. 18 sectors recorded positive growth in Q3 compared to 13 in Q2. Although 23 sectors recorded negative growth in Q3, their rate of contraction was far lower than in Q2, suggesting that the sectors had improved growth. Thus, with less and less covid-19-induced restrictions, and more businesses coming back to life, a positive growth rate could happen in Q4 or first quarter of 2021;
- Encouraging performance of the Manufacturing Purchasing Managers' Index (PMI) and Non-manufacturing Purchasing Managers' Index. The Manufacturing PMI crossed the 50.0 index points to 50.2 in November 2020 from 49.4 index points in October. Although the Non-manufacturing PMI

has not crossed the 50.0 benchmark, it increased from 46.6 in October to 47.6 index points in November;

- The industrial production index improved in Q3 as it rose by 3.6 percent in that quarter from 106.6 index points in the second quarter.

For the country to exit recession quickly:

- There is need for government to ensure that a second wave coronavirus pandemic does not occur in the country. A second wave will be catastrophic for the economy and the citizens. Therefore, the citizens must be continuously sensitized on the need to comply with covid-19 safety protocols until there is a good handle on the virus. The good news is that an effective vaccine will soon be available. The government must plan to access the vaccine for Nigerians. It should pay for the vaccine on behalf of the vulnerable groups while others should pay for their vaccinations.
- Government should focus interventions on the components of agriculture, manufacturing, construction and housing, real estate and transport sector. The latter is still very much in the doldrums.
- Need to speed up implementation of the very well designed Economic Sustainability Plan by front-loading implementation of priority income and employment generating activities, for example, those relating to MSMEs, agriculture, public works and road construction, mass housing, solar home systems, digital technology hubs and aviation industry support.
- The Central Bank of Nigeria (CBN) would need to ensure effective implementation of its laudable intervention programmes and beef up those where demand is very high, for example the Targeted Credit Facility aimed at households and MSMEs.
- Re-invigorate efforts to significantly improve the operating environment of economic activities, particularly, by addressing growing insecurity of lives and property, inefficient and cumbersome ports which encourages

diversion of imports to neighbouring countries, epileptic and costly power supply and infrastructure deficits.

Rising Inflation

This is a serious challenge in a period of output contraction, thus compounding the problem of policy response to recession. For the tenth consecutive month, inflationary pressure has persisted. The inflation rate (headline) climbed to a thirty-month high of 14.23 percent in October 2020 (13.22% in September), with the other measures of inflation were also trending upwards: food inflation, 17.38 percent (16.0% in September); core inflation, 11.14 percent (10.52% in September). The drivers of the inflationary pressure seem to be largely non-monetary, arising from disruptions in the supply chain and supply bottlenecks, insecurity and banditry in the food producing areas, ravaging flood in food producing areas of the North, border closure, increasing energy costs which increase transport costs, legacy infrastructure deficits, etc. Although the fiscal and monetary injections have tended to increase liquidity in the economy, it is not clear the extent to which this is translated to consumer prices, especially under conditions of continued weak aggregate demand. Therefore, in addressing the inflationary spiral, it is important for government to focus on resolving the non-monetary issues, while the Central Bank will continue to do the needful to ensure an optimal level of money supply that will drive growth. It should also continue with implementation of the development finance interventions aimed at tackling inflation from the supply side of the economy.

Financial Sector Performance

The financial sector has continued to demonstrate soundness and resilience even under a debilitating covid-19 environment. The performance confirms the robustness and efficacy of the monetary policy measures. The financial

soundness indicators reflect good performance: Capital Adequacy Ratio at 15.5%; Reduced Non-Performing Loans Ratio at 5.72% even though a little higher than the prudential benchmark; and Liquidity Ratio of 35.6% very much above the benchmark. The total assets, deposits and credit of the banking industry have also grown remarkably. For example, because of the Loans to Deposit Ratio policy of the CBN and other related measures such as the Global Standing Instruction, the total gross credit to the economy by the deposit money banks increased by N3,976.34 billion from N15,567.66 billion at end May, 2019 to N19,544.00 billion as at November 13, 2020. Credit growth was largely recorded in Manufacturing, Consumer credit, General Commerce, Information and Communication, Construction and Agriculture.

However, although the CBN's measures influenced interest rates downwards, lending rates are still high and there is unacceptable disparity between lending and deposit rates. The spread between the two rates is wide standing at 26.47 percentage points in November. Such a wide spread discourages savings and unnecessarily favours the Deposit Money Banks (DMBs). After some months of implementation, there is need for the Bank to review two extant policies relating to savings/deposit interest rates and corporate savings/deposits. They have been described as promoting financial repression.

- The abolition of savings accounts by corporate enterprises/organisations – micro, small, medium and large enterprises including private educational institutions, foundations and even small associations/clubs, and so on. There is need to review this policy to allow corporate MSMEs to operate savings accounts just as the DMBs save money even through investment in government securities. To the extent that the savings account is one of the financial products of the DMBs, MSMEs have a right to put some money in savings deposits for the rainy day. Importantly, i) Savings deposits will help them to withstand shocks to which they are highly

vulnerable by putting their small balances in savings accounts to earn interests which contribute to their sustenance; ii) MSMEs will be able to avoid double jeopardy which they suffer at present; not only do they lose interest income, they are now exposed to all sorts of charges on the current accounts which they operate; iii) The abolition of corporate savings deposit accounts could undermine the attainment of the objective of reducing the size of the informal sector as some informal sector operators could be discouraged from assuming the character of formal sector operators.

No doubt, the CBN has good intentions but the policy is having unintended adverse effects that are larger than the benefits to the banks. And so, allow corporate savings deposits for MSMEs but direct the DMBs to charge stamp duties on such accounts, if it was not done before. Also, large enterprises that have huge amounts of surplus funds can be barred from operating corporate savings accounts. They have more negotiating power and easier access to other savings instruments than the vulnerable MSMEs.

- Reduction of the minimum savings deposit rate to a minimum of 10 percent of the MPR subject to negotiation of the rates with customers. The banks never negotiate with customers but fixed the rate at 1.25 percent with MPR of 12.5% and later 1.15 percent from September under 11.5% MPR regime. Again, like the above policy, stakeholders perceive this policy as promoting the profit interests of the DMBs. I know that this is not the intention. But with widening disparities between lending and savings deposit rates, the DMBs are smiling at the expense of ordinary citizens and MSMEs. Therefore, there is the need to review the minimum savings

deposit rate upwards to encourage small savings and narrow the unacceptable interest rate spread.

OPINION

Against the backdrop of the foregoing real sector developments in Nigeria, the need for measures to quicken economic recovery and exit recession is not in doubt and, indeed, a priority. But the fact of rising inflation due largely to non-monetary factors remains a major challenge. Therefore, tightening or loosening monetary policy is not an option in the present circumstance. Loosening will compound the inflationary pressure, while tightening will hurt the desired economic recovery. The downward adjustment of the MPR last September will need time for the expected effects to manifest while the CBN's development interventions continue to influence aggregate supply and hence the price level. Therefore, my vote is to hold all the parameters constant:

MPR: 11.5%

CRR: 27.5%

Liquidity Ratio: 30.0%

Asymmetric Corridor: +100/-700 basis points

7. OBIORA, KINGSLEY ISITUA

In light of the dual macroeconomic challenges of a declining growth and rising inflation, and given the monetary policy actions that we have already taken, I voted to: retain the MPR at 11.5 percent, the CRR at 27.5 percent, the LR at 30 percent and the Asymmetric Corridor of +100/-700 basis points around the MPR. I believe that this stance will best support our ongoing efforts to reboot the economy, protect livelihoods and secure financial stability.

Despite promising vaccine announcements, the Novel Coronavirus Disease (COVID-19) has intensified its spread across the world. The earlier-than-expected successful vaccine trial results are highly encouraging and suggest that a complete global economic recovery is on the horizon. However, the immediate path of the COVID-19 virus and contagion remains concerning. Since the last MPC meeting in September, global cases have almost doubled from 30 million to 58 million, with deaths rising from 950,000 to 1.4 million. After the initial success in flattening the curve, several major economies have seen a recent surge in infections. In response, some governments, such as France, Germany and the United Kingdom, have decided to re-impose national lockdowns. I am also concerned that while the news on vaccines is spectacular, plans for actual vaccinations appear to be fragmentary with enormous challenges that are yet to be fully calibrated.

These headwinds may partially set back the economic recovery that began in the third quarter of 2020. The economies of the United States, the United Kingdom, France and Germany expanded by 33.1, 15.5, 18.2 and 8.5 percent, respectively, offsetting significant contractions in the second quarter. J.P. Morgan's Global Manufacturing Purchasing Manager's Index (PMI) rose further to 53.0 points in October 2020, indicating the fastest growth in global

manufacturing output in over two-and-a-half years. Accordingly, the IMF's World Economic Outlook in October revised upwards its projections for global output to a contraction of -4.4 percent in 2020, compared to -4.9 percent previously, and a rebound of 5.2 percent in 2021. Despite these positive developments, however, the recent rise in cases and the consequent increase in restrictions suggest a challenging outlook for the immediate future. To quote German Chancellor, Angela Merkel, it is likely to be a "long, difficult" winter, albeit perhaps not as grave as the second quarter of this year.

Domestically, the Nigerian economy has slipped into a recession, although the pace of contraction has slowed. According to the National Bureau of Statistics (NBS), following a decline of -6.10 percent in the second quarter, the Nigerian economy contracted by -3.62 percent in the third quarter. Whilst this brought the economy into a recession, the contraction was less severe and better than previously expected. Several key sectors experienced positive growth, for example Information & Communication, Financial & Insurance, Construction and Agriculture, grew by 14.56, 3.21, 2.84 and 1.39 percent, respectively. Even though the overall decline is concerning, with only 17 out of 46 activity sectors experienced growth, there are some tentative signs of recovery. The Manufacturing PMI moved into expansion territory at 50.2 index points in November 2020, building from 49.4 index points in October. The Non-Manufacturing PMI, although remaining below 50.0, has risen to 47.6 index points in November 2020 from 46.8 index points in October. The latest round of the NBS National Longitudinal Phone Survey (NLPS) suggests that the proportion of people who are working has stabilized at 85 percent, close to pre-COVID levels. The proactive policy measures taken by the Federal and State Governments, as well as by the Central Bank of Nigeria (CBN), have cushioned the full economic impact of the pandemic and are beginning to support recovery. Accordingly, the IMF has revised upwards its forecasts for Nigeria, projecting a -4.3 percent contraction in 2020, compared to -5.4 percent previously.

The banking system remains resilient amidst these fragile macroeconomic conditions. Non-Performing Loans (NPLs) decreased to 5.72 percent in October 2020 compared to 6.60 percent in the corresponding period of 2019, reflecting recoveries, write-offs and disposals. Furthermore, the CBN has put in place strategies to bring this ratio below the 5 percent benchmark, including the Global Standing Instruction (GSI) policy and forbearance that allows banks to restructure credits impacted by COVID-19. As at 13 November, 2020, total gross credit stood at N19.54 trillion, reflecting an increase from N19.46 trillion at the last MPC meeting in September and from N15.57 trillion in May 2019. Notably, lending interest rates have also declined. In October 2020, 86.23 percent of loans issued by Deposit Money Banks (DMBs) were at rates below 20 percent, compared to 76.43 percent in July 2019. The weighted average Open Buy Back (OBB) rate declined to 1.88 percent in October 2020 from 3.50 percent in September 2020, due to existing liquidity levels in the system.

Nonetheless, our policy decisions continue to be constrained by multiple macroeconomic challenges. Inflationary pressures persist, as headline inflation increased to 14.23 percent from 13.71 percent in September 2020 and is at its highest level since March 2018. The increase was driven largely by the food component, which rose to 17.38 percent in October from 16.66 percent in September 2020. This appears to be caused by insecurity in agricultural producing areas of the country, coupled with increases in the pump price of Premium Motor Spirit (PMS) and in electricity tariffs. It is anticipated, however, that this recent uptick should begin to retract, with the commencement of the harvest season and the various interventions of the CBN to boost food supply. In anticipation of this need, the CBN recently launched the Private Sector-Led Accelerated Agriculture Development Scheme (P-AADS), which will provide loans of up to N2 billion per obligor and will engage 370,000 youths in

agricultural production. This will also complement other efforts to address Nigeria's severe level of youth unemployment, such as the N75 billion Nigerian Youth Investment Fund (N-YIF).

Overall, the global and domestic outlook remains uncertain. The risks associated with COVID-19 have not waned in the short-term, even though vaccine prospects indicate some promise for 2021. It must also be noted that full restoration of the global economy will not be achieved until vaccines are distributed to all in order to enable a somewhat normal return to full activities. As such, it is not vaccines that truly matter, but rather vaccinations. While vaccines are a necessary condition to this outcome, vaccinations are the sufficient condition. We must therefore make comprehensive and adequate preparations for vaccine acquisition and distribution in Nigeria, to build on our existing policies to support economic recovery. The CBN has collaborated extensively with the Federal and State Governments and the private sector on significant interventions targeted at increasing aggregate demand, boosting domestic agricultural production, driving lending to MSMEs and investing in critical infrastructure. These are beginning to bear fruit, alongside this year's cumulative 200 basis point reduction in the Monetary Policy Rate.

We must cogently continue in these efforts to drive our economy out of recession, whilst also prudently ensuring that inflationary pressures are contained. On this basis, I voted to:

Retain the Monetary Policy Rate (MPR) at 11.5 percent;

Retain the Cash Reserve Requirement (CRR) at 27.5 percent;

Retain the Liquidity Ratio (LR) at 30.0 percent; and

Retain the asymmetric corridor of +100/-700 basis points around the MPR.

8. SANUSI, ALIYU RAFINDADI

1.0 Decision:

The last MPC meeting for the year 2020 held in the wake of the continued upward trending inflation and the official confirmation of the well-anticipated technical recession following the release of GDP figures for the third quarter of 2020. While I believe the optimal policy is one that accelerates output growth to quicken the recovery, my concern for the rising inflation and exchange market pressure informed my decision to vote for a hold on all the parameters at their current levels. I believe on-going disbursements of the various COVID-19 intervention funds would continue to provide the requisite liquidity at low-cost to support quicker output recovery with reduced risk of exacerbating the inflationary and exchange market pressure.

2.0 Background and Justification

2.1 Global Economic Developments

Several developments in the international economy have significantly improved the prospects for economic recovery. The announcements of vaccines that are over 90% effective against the COVID-19 virus have dampened the prospect for another round of economy-wide shut-downs in the second and the third waves of the pandemic, while the outcome of the US elections has improved the prospects for oil market recovery in the medium term.

Review of the recent global economic developments suggests that, although uncertainties remain, there is a strong basis for some optimism about global economic growth prospects. Key amongst these encouraging developments is the announcements of the discovery of COVID-19 vaccines that are over 90% effective against the virus. On 9th November, 2020, the US pharmaceutical giant, Pfizer and its German partner, BioNTech, announced the results of the clinical

trials of their mRNA-based vaccine candidate, BNT162b2, demonstrating over 90% effectiveness against COVID-19. Soon after, the Sputnik V vaccine, developed at the National Research Centre for Epidemiology and Microbiology in Moscow, was announced with 92% effectiveness in preventing COVID-19 symptoms. AstraZeneca, in partnership with the University of Oxford, has also announced that its vaccine had an average efficacy of between 70 and 90 per cent in preventing COVID-19. Moderna has also reported their discovery of another highly efficacious vaccine. Given the logistical, planning and other regulatory issues, it is estimated that vaccinations could be started before the end of the year 2020. *This singular development has raised the hope for the return of normality within the year 2021, thereby improving the prospects for a full recovery of economic activities. This is especially so as the world faces the second and third waves of the pandemic with rising cases of new infections*

The prospects for the exit of US president, Donald Trump, following the outcome of the US elections also has important implications for the global economic and diplomatic relations. It raises the possibility of the resolution of the lingering trade war between the US and China which shaped the global economic plane for the best part of the last four years. It also has implications for the global oil market, given the potential for some *restrictions* in the production of shale oil in the US and the return of the US to the Paris Agreement on Climate Change.

Recent developments in the global economy reveal sluggish output recovery path, albeit slightly faster than earlier expected, with IMF's upward review of its forecast for 2020 from -4.9% to 4.4%. This is premised on the development of effective vaccines and stronger output in the advanced economies as well as the impact of the global fiscal and monetary stimuli. In 2020Q3, output expanded (q-o-q) in most of the advanced economies. In the US, output (q-o-q) expanded from -31.7% in Q2 2020 to 33.1% in 2020Q3. In the Euro area, the UK and Japan, output also expanded by -12.1%, -20.4% and -8.2% in Q2 2020, to

12.7%, 15.5% and 5.0%, respectively, in 2020Q3. Output has, however, contracted (q-o-q) in most of the Emerging Markets and Developing Economies (EMDEs), except in China that recorded a (slower, but) positive growth of 2.7% in 2020Q3. *Brazil, India, Russia, South Africa and Nigeria have all recorded another contraction (q-o-q) in 2020Q3, and have been in recession for the third quarter, except for Nigeria which has just slid into recession.* Also, data shows that the output contractions recorded in these selected EMDEs in 2020Q3 are significantly deeper than those of previous quarters, except in Nigeria where the contraction in 2020Q3 (-5%, q-o-q) was much shallower than that of the 2020Q2 (-14.3%, q-o-q). The year-on-year output contraction moderated from -6.1% in 2020Q2 to -3.62% in 2020Q3. *Therefore, although Nigeria has slid into a technical recession following the negative output growth in the third quarter of 2020, there are indications that output may already be on a recovery path.*

In the Advanced Economies, inflation rates continue to trend below their pre-pandemic levels and are projected to slow to 0.5% in 2020 from 1.3% in 2019 due to weakening aggregate demand. In the Euro Area, inflation in both September and October 2020 was -0.2%, indicating a deflation. In the US, inflation has decreased (year-on-year) from 1.4% in September 2020 to 1.2% in October 2020. In the UK, inflation inched up from 0.5% in September 2020 to 0.7% in October 2020 due to rebound in food and transport prices. In Japan, inflation rate declined to -0.4% in October from 0% in September 2020, a deflationary situation like the Euro Area. In the EMDEs, however, price developments remained mixed, with a rising trend in Kenya, Egypt, and Nigeria, but a declining trend in China and Ghana. IMF forecasts suggest that inflation in EMDEs will slightly decline to 5.0% in 2020 compared with 5.1% in 2019.

2.2 Domestic Economic Developments and their Implications

Output data from the NBS confirmed that the Nigerian economy has slipped into recession following a second consecutive negative growth in the third quarter of 2020. Real output had declined (y-o-y) by -3.62% in 2020Q3 compared with the decline of -6.1% in 2020Q2. Although negative, the relatively smaller contraction relative to that of the previous quarter indicates that recovery may have started, and the recession may not be long-lasting. It also reflects the positive effects of the various heterodox monetary interventions and credit policies in response to the COVID-19 pandemic. The data shows that both oil and non-oil output had contracted, reflecting the lag effects of the movement restrictions and economic activities. Oil GDP, which contributed 8.73% of the GDP, contracted by -13.89% during the third quarter of 2020, compared with -6.63% in 2020Q2. The contraction was due to the decline in oil price and oil production during the period. The non-oil GDP, which contributed 91.27% of the total GDP, contracted by -2.51% in 2020Q3 compared with -6.05% in 2020Q2. The CBN's monthly Purchasing Managers Index (PMI) has continued to trend upwards since June 2020. The Manufacturing PMI, which stood at 48.5 index points in August 2020, has crossed the 50-point neutral mark to 50.2 index points in November 2020, thereby suggesting an expansion in manufacturing activities. The non-manufacturing PMI has also improved from 44.3 in August 2020 to 47.6 index points in November 2020. These improvements reflect the gradual recovery of the domestic economy as a result of increased business activities supported by the various monetary and fiscal interventions.

Crude oil production and export have increased marginally by 1.98% (m-o-m) to 1.54 mbpd at the end of October 2020 compared to 1.51 mbpd in September 2020 following increased investment in production activities. The production level continues to be well below the budget benchmark of 1.94 mbpd. Notwithstanding the average oil price being above the revised fiscal benchmark of US\$ 28pb (projected to stay between \$40/b and \$42/b), the

lower production benchmarked is likely to adversely affect fiscal performance *and external reserves accretion*.

Available data from the NBS shows that headline inflation has continued on the upward trend that started in September 2019 following the closure of land borders. In October 2020, headline inflation rose to 14.23% (y-o-y) from 13.71 in September 2020, driven by increases in both food inflation and core inflation. Food price inflation (y-o-y) rose to 17.38% in October 2020, from 16.66% in September 2020, driven by an increase in the prices of processed food and farm produce. Core inflation (y-o-y) rose from 10.58% in September 2020, to 11.14% in October 2020, due to increase in the prices of processed food, housing, water, gas & other fuels, health, transport, education and restaurants & hotels. Staff forecasts suggest that inflation would continue on the upward trend through 2020, largely reflecting the rising cost of food due to disruptions in the supply chain; the continued closure of the land borders; rising spates of insecurity in the food-producing areas; hikes in the price of PMS; hike in electricity tariff; exchange rate adjustment as well as the liquidity impacts of the various fiscal and monetary interventions aimed at reflation the economy.

Domestic money supply has continued to expand, as expected, owing to the liquidity injections needed to revamp the economy. The broadest money supply, M3, increased by 3.53% in October 2020 relative to December 2019. Annualized at 4.23%, this growth rate is below the provisional benchmark of 6.84% for 2020. Reserve Money also increased (by 69.86%) in October 2020 relative to December 2019 and was 4.79 % above its provisional benchmark for Q4 2020.

The Banking System Stability report reveals that the banking industry continues to be resilient in the face of the COVID-19 pandemic. The NPLs continued its downward trend, declining to 5.72% at end-October 2020 from 6.56% at end-October 2019. Total credit to the economy increased by N3.976.34 trillion, due to the CBN's LDR policy, which encourages banks to lend. The largest

recipient of the new credit remains the manufacturing sector, consumer credit, general commerce, ICT, construction and agriculture. The report also shows that more bank customers are getting loans at lower interest rates. For instance, as of October 2020, 86% of the total loan portfolio were granted at less than 20% interest rate compared with 76% in June 2019.

3.0 The Basis for My Policy Choice

Although there is a significant threat to inflation, which is forecasted to rise in the medium term, tightening the policy stance amidst recession will not only delay the recovery but may also exacerbate the inflationary pressure by further depressing aggregate supply. Although loosening may help improve aggregate supply, the rising inflation and negative real yields have reduced the headroom for a further rate cut at the moment. It could further intensify the exchange rate pressure and adversely affect capital flows. I believe that on-going disbursements of the various COVID-19 intervention funds by the Bank would continue to provide the requisite liquidity at low-cost to support quicker output recovery with reduced risk of exacerbating the inflationary and exchange market pressure. I, therefore, voted for a hold on all the parameters, for now, to allow for the effects of these interventions to work themselves out.

Consequently, I voted to:

Retain the MPR at 11.50 per cent;

Retain the CRR at 27.5 per cent;

Retain the Asymmetric Corridor at +100/–700 basis points; and

Retain Liquidity Ratio at 30.0 per cent.

9. SHONUBI, FOLASHODUN A.

As nations struggle to overcome the pandemic and the ensuing socio-economic impact, the world is set to witness the end of 2020, with a recession that is projected to be second, in severity, only to the great depression of 1930s. The global economy remained constrained by subdued economic activities, muted trade, depressed commodity markets, cautious financial conditions and swelling debt profile, amidst the second wave of a pandemic that is ravaging most developed economies. Notwithstanding the far-reaching implications of this situation for the Nigerian economy, dogged actions by the monetary and fiscal authorities have significantly moderated the negative impact on lives and livelihood of the populace. Importantly, as the result of recent actions continue to manifest, the scope for policy options to support sustainable growth of the domestic economy has indeed become clearer and enhanced. We must remain focused on helping households, businesses and communities to cope, adjust and recover.

Global and Domestic Economic Developments

Signs of improvement in global economic recovery during the third quarter of 2020 was buoyed by enhanced vaccine prospects and slight recovery in intra-regional trade. Predicated on the expectation that the development would support risk sentiments going forward, the International Monetary Fund (IMF) revised its projected contraction of global growth to -4.4 per cent in 2020, against its earlier -4.9 per cent. Downward risk to global growth, however, persisted with slowdown in US fiscal stimulus and spread of a second wave of the pandemic, leading to rapid re-introduction of lockdown measures in several developed economies. Inflation remained muted in the advanced economies, while exchange rate pressures and structural bottlenecks have precipitated high inflation in emerging and developing economies.

On the domestic scene, recently released data by the National Bureau of Statistics (NBS) indicated that the Nigerian economy contracted by -3.62 per cent in the third quarter of 2020, lower than the -6.10 per cent in the second quarter of 2020. This reflected the significant decline of 13.89 per cent in the oil sector and much lower than expected contraction of -2.51 per cent in the non-oil sector. Though second consecutive quarter of contraction effectively pushed the economy into recession, a glimpse of hope exists in the future trajectory of growth as indicated by the trend of activities in most of the sub-sectors. Also important is the improvement in manufacturing and non-manufacturing Purchasing Manager's indices which, rose to 50.2 and 47.6 index points, respectively, in November 2020.

Stability of the banking system has been sustained throughout the year. Industry capital adequacy and liquidity ratios were 15.5 and 35.6 per cent in October 2020, compared with the respective prudential thresholds of 15.0 and 30.0 per cent. Non-performing loans ratio improved further to 5.72 per cent, though slightly higher than the regulatory limit of 5.0 per cent. The trend generally indicated a preservation of the sound health of the banking industry, and underscored efficacy of regulatory/supervisory measures.

Inflationary pressure persisted as the major consumer price indices rose further in October 2020. Headline inflation rose to 14.23 per cent at end-October 2020, from 13.71 per cent in the previous month. This reflected further increase in food and core inflation to 17.38 and 11.14 per cent, respectively, attributed mainly to the lingering disruptive effects of the pandemic on supply chain, impact of increase in energy price on transportation/logistic cost on food prices and exchange rate passthrough to prices.

Developments in the money and financial markets were mixed. Increase in aggregate domestic credit, aided by the LDR policy and CBN intervention

credit, pushed growth in broad money supply further to 3.53 per cent in October 2020, compared with 3.20 per cent in the previous month. Ample liquidity in the banking system have, however, depressed the money market rates, with Open-Buy-Back rate falling to 1.88 per cent, while the inter-bank segment was generally dry. Low yield in the money market and enhanced investors' confidence have led to the bullish rally in the capital market, as the all-share index and equity market capitalization rose to 34,136.82 and ₦17.85 trillion, respectively, as at November 20, 2020.

Though the Bank has sustained its effort at effectively managing activities and vulnerabilities in the external sector, slow accretion to external reserves, mainly, as a result of reduced low oil prices, and dwindling capital inflows continued to cause pressure in the sector. In the fiscal sector, slump in oil price and global demand constitutes severe fiscal burden for the Government. Consequently, persisting revenue shortfall, rising fiscal deficits and increasing debt profile have significantly limited the scope and depth of operations of the Government.

Overall Considerations and Decision

Outlook for global economic recovery, on account of promising developments around the discovery of vaccines has been dampened by the likely impact of widespread lockdown in major developed economies, due to a second wave of the pandemic. The global economy is therefore weighed down by low productivity, muted trade, bloated debt profile and delicate financial conditions. Persisting low inflation in most advanced economies and cost push inflation in many emerging and developing economies have also constituted a clog on the wheel of the global economy. With low prospect of global growth rebounding quickly, we must sustain our rethinking of the Nigeria economic policy direction vis-à-vis the global economy and intensify our focus on rebuilding the domestic economy such that it relies more on its inner strength and is self-sustaining.

Clearly, the issues we must address are diverse. While we seem to have gotten it right with low and stable interest rate to drive increased and cheaper credit to the real sector, high inflation, economic recession and pressured exchange rate remain critical to improving the fortunes of the populace. The situation therefore raises pertinent questions about the efficacy of our policy measures.

Recent data on domestic output indicated better-than-projected contraction on account of stronger quarter-on-quarter improvement in more sectors, compared with previous quarter. This is a signpost of encouraging trend in output growth. The uptick in inflation is as a result of many factors, foremost of which is the lingering disruption of supply chain by the pandemic-induced lockdown/restrictions and effect of higher energy price on transportation/logistic cost, thereby fueling cost push inflation. Accordingly, I believe that by further intensifying our LDR policy and targeted interventions to ease constraints to output expansion, we would have achieved the multiple objectives of raising output, bringing down production cost through economies of scale, improving employment and eventually moderating inflation.

It is heartwarming that despite operating in an environment of faded growth, stunted yield and elevated risk, the stability of the domestic banking system was pleasantly preserved in 2020. The Bank's innovative regulatory interventions have ensured that imminent risks are avoided or mitigated. I am optimistic that to build more confidence on the potency of our approach, we must sustain our regulatory ingenuity to ensure that trend of improved financial intermediation, at moderated cost and overall relative stability is not short-lived. As I mentioned in one of my previous statements, rebound in the capital market is a good omen that is expected to encourage asset reallocation towards the equity segment to support the real sector, thereby providing greater scope for policy maneuver.

To consolidate on the progress made so far, the fiscal authority is encouraged not to relent on the giant strides already achieved. Government is advised to swiftly invoke components of Economic Sustainability Plan that support households and small businesses, and impact on youth employment, to sustain the gains of ongoing intervention measures like the Nigeria Youth Investment Fund, SME support facility, etc. I recommend urgent and aggressive implementation of initiatives that focuses on public works and Public Private Partnership.

I am delighted with the outcomes of the current measures so far. The pattern and strength of growth in the third quarter provides a glimpse of hope and basis for cautious optimism. We just must continue to improve the operating environment to sustain the positive trend. In this regard, I want to encourage that we leverage the collaboration with Banker's Committee on effort to improve infrastructure as a way of enhancing the quality of output for export. Tangential to this, and to improve conditions in the external sector, is the need to examine deeper, foreign exchange market activities with a view to discouraging identified entities from practices that fuel supply/demand in the parallel market. This will go a long way to reduce vibrancy and curb pressure in that segment of the market.

I believe strongly that we are on the right track. Though the road to recovery remain steep and uncertain. As we strive to steer the economy in the right direction, I must advise that the impact of the digital revolution witnessed during this crisis should not be lost. We must factor the lessons and gains into our strategic plans to encourage skill and knowledge building, enhance innovation, facilitate expansion of economic activities, growth and revenue, for a resilient future. As we strategize on what more to do, we must sustain and intensify ongoing interventions designed to stimulate consumption, further de-risk the operating environment and encourage investment to promote productivity.

I therefore vote to retain the:

- MPR at 11.50 per cent;
- Asymmetric Corridor of +100/-700 basis points around the MPR
- Cash Reserve Ratio (CRR) at 27.5 per cent; and
- Liquidity Ratio at 30.0 per cent.

10. EMEFIELE, GODWIN I.

GOVERNOR OF THE CENTRAL BANK OF NIGERIA AND CHAIRMAN, MONETARY POLICY COMMITTEE

At the back of a challenging first half of the year, global economic output showed improvements in the second half of 2020. This comes as the world learns to live with COVID-19 and as containment measures were eased, allowing businesses to reopen. Uncertain global outlook seems to be dissipating as various national governments adopt expansionary policy measures to boost domestic confidence and fast-track recovery. Given the renewed outbreak in many countries, the pace of recovery will depend on how quickly business and consumer confidence are restored. Although 2020q3 GDP outturn could outperform 2020q2, most advanced and emerging market economies, except for China, will record recession in 2020. In the short-term, the newly announced COVID-19 vaccine could restore economic confidence and quicken global recovery. For 2021, though a fragile recovery is expected in many countries, output may be below projected pre-pandemic levels.

Domestic economic conditions and short-term outlook improved noticeably in 2020q3 as lockdowns were increasingly eased and activities progressively normalise. This followed the prompt and extensive reaction of policymakers to cushion the adverse effects of the pandemic, restart the economy, and accelerate recovery. Though current macroeconomic conditions remain fragile, steeper rebound could begin by 2020q4. From -6.1 percent in 2020q2, output contraction improved to -3.6 percent in 2020q3. This trajectory was significantly better-than-envisaged and suggests the likelihood of a positive outcome by 2020q4. It derived from improved performance of the non-oil sector which eased from a contraction of -6.1 percent to -2.5 percent as against the worsening pace of oil GDP from -6.6 percent to -13.9 percent in the same period. The non-oil sector remains the bedrock of the domestic economy.

Hence, the various efforts at stimulating and bolstering productivity in the non-oil sector must be reinforced. With prevailing disruptions in the international oil market, the need to rebalance our economy and strengthen its structural base remains sacrosanct. A complete and quickened diversification from oil is needed to insulate the economy and reduce our vulnerability to undue external shocks.

After fourteen consecutive months of uptick, year-on-year headline inflation, at 14.2 percent in October 2020 vis-à-vis 13.7 percent in September showed persistent pressures. This reflected the 72 basis points increase in food inflation to 17.4 percent and 56 basis points rise in core inflation to 11.1 percent. Disruptions to supply network (either due to COVID-19 or insecurity) and the concomitant food shortages significantly elevated headline inflationary pressure and may persist if not corrected. Nonetheless, the envisaged increase in the volume of domestic supply, following CBN interventions to boost production and speed-up recovery, may asymptotically lower inflation inertia by mid-2021.

Again, the current stagflation poses a dilemma for policy making and continues to highlight the importance of a strengthened productive base. It underscores the need for fast-tracked diversification and sustained support of the real sector through growth enhancing policies. I note the CBN's development finance initiatives to minimise the adverse impact of the COVID-19 Pandemic, resolve underlying structural deficiencies, and speed-up recovery. The liquidity support covers various economic activities and aims to narrow supply shortages within the economy and boost consumer spending. I remain confident that an effective correction of the supply shortages (especially in farm produce) will have the dual effects of boosting output and moderating inflation.

Domestic financial market conditions were diverse, with a bullish stock market, liquid money market, and persisting exchange market pressure. Analysis of

liquidity conditions indicates expansion in monetary aggregates in October 2020 as broad money supply recorded an annualised growth of 4.2 percent. This follows the 9.1 percent annualised growth in aggregate domestic credits, highlighting the efficacy of our interventions and LDR policy. Since May 2019, gross banking system credit grew by nearly N4 trillion to N19.5 trillion at mid-November 2020. Yet, the Nigerian banking system remained largely sound as key FSI including NPLs and CAR showed continued improvements. Amidst exchange market pressure, external reserves stayed above US\$35 billion though uncertainty could undermine expectations of future output and price trajectories.

In my consideration, I stress the need for policy that impact positively on the lives and livelihoods of Nigerians. I note that we have entered a second recession in 4 years, due largely to our vulnerability to external shocks. As the biggest economy in Africa, we need to reverse this trend, diversify away from oil and insulate our economy from undue shocks. I emphasise the need for policymaking that will bolster the productivity of non-oil sector and boost local production especially in the agriculture and industry sectors. At this critical time, I note again the need to resolve structural constraints, sustain real sector support, stimulate aggregate supply and enhance job creation.

I note again the dilemma of stagflation as inflation ascends and output contracts. The undesired policy trade-off from this requires delicate balancing. While the primacy of price stability is acknowledged, I note that ignoring the need for output stabilisation at this critical time could have severe long-term consequences for the economy. Though inflation expectations are elevated, growth outlook is fragile. It is imperative and urgent to restart the economy now rather than later. I am inclined towards measures to boost domestic supply capacity and bolster production as this will not only foster a quick and strong recovery but will also lower the long-run path of inflation.

I note the need, in this regard, for the CBN to sustain and strengthen its development finance interventions in agriculture, manufacturing, MSMEs, etc, to bolster local capacity and domestic production, enhance job creation, and reduce poverty. I note the need for well-balanced policy decision. Tightening, at this time, to curb inflation will worsen recession, while loosening will exacerbate inflationary pressure. The recent easing of monetary stance, the LDR policy and the various interventions of the Bank are providing adequate liquidity impetus for the real sector. I am of the view that the impact of these actions should be allowed to completely unfold as the needed impetus to rectify the supply shortage is sufficiently in place. Alterations of policy parameters today, could in my view introduce undue impulses and cause indeterminate equilibrium. My inclination is, thus, to hold all parameters. I believe the current stance is adequate to attain the long-run objectives of price stability and output stabilisation without complicating recovery. Accordingly, I vote to:

1. Retain the MPR at 11.5 percent;
2. Retain the Asymmetric Corridor at +100/–700 basis points;
3. Retain the CRR at 27.5 percent; and
4. Retain liquidity ratio at 30.0 percent.

Godwin I. Emefiele, CON

Governor

November 2020